

Message Text

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SUBJ: COLOMBIA'S BALANCE OF PAYMENTS PERFORMANCE FIRST SEMESTER -
1974

1. BEGIN SUMMARY. AN ANALYSIS OF THE FOREIGN EXCHANGE RECEIPTS AND PAYMENTS FOR THE FIRST HALF OF THIS YEAR SUGGESTS THAT COLOMBIA'S BALANCE OF PAYMENTS, WHILE CERTAINLY RESPECTABLE, DID NOT PERFORM AS WELL AS IT DID FOR THE SAME PERIOD LAST YEAR. THE CURRENT ACCOUNT SHOWED A SMALL DEFICIT OF 8 MILLION AS COMPARED TO A SURPLUS OF 90 MILLION LAST YEAR. THIS DEFICIT RESULTED BECAUSE: (A) THE VERY GOOD 39 PERCENT GROWTH IN NON-COFFEE EXPORT RECEIPTS WAS NOT SUFFICIENT TO OFFSET THE LACK OF GROWTH IN COFFEE EXCHANGE EARNINGS WHICH ABOUT EQUALED LAST YEARS GOOD PERFORMANCE, (B) AT THE SAME TIME, IMPORT PAYMENTS GREW BY A VERY RAPID 44 PERCENT, AND (C) THE RECEIPTS FOR SERVICES REMAINED AT ABOUT LAST YEARS LEVEL WHILE PAYMENTS GREW BY 20 PERCENT. THE RAPID EXPANSION IN IMPORTS RESULTED IN PART FROM HIGHER WORLD PRICES AND IN PART BY GOC DECISION TO USE INCREASED IMPORTS TO FIGHT INFLATION. INTERNATIONAL RESERVES GREW BY 10 MILLION BUT UNLIKE LAST YEAR'S INCREASE IT WAS NOT INFLATIONARY. THE RESERVE INCREASE REPRESENTED THE ADJUSTMENT IN THE OFFICIAL VALUE

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OF GOLD HOLDINGS. BY COMPARISON, AT THE SAME TIME LAST YEAR

RESERVES HAD GROWN BY NEARLY 120 MILLION. THE DEVALUATION OF THE PESO FOR THE FIRST SEMESTER WAS THREE PERCENT OR THE SAME RATE OF DEVALUATION EXPERIENCED IN THE FIRST HALF OF LAST YEAR. END SUMMARY.

2. EXPORTS OF GOODS AND SERVICES: RECEIPTS FOR GOODS AND SERVICES WERE UP BY 15 PERCENT FOR THE FIRST SEMESTER. WHILE NON-COFFEE EXPORT RECEIPTS WERE UP BY NEARLY 39 PERCENT, COFFEE RECEIPTS WERE DOWN BY ABOUT FOUR PERCENT. NON-COFFEE RECEIPTS WERE 320 MILLION AND THEY EXCEEDED COFFEE EARNINGS BY ABOUT 40 MILLION. FOR THE NON-COFFEE EXPORTS THE LARGEST COMMODITY GROUPINGS ARE GROWING RAPIDLY. TOTAL EXCHANGE RECEIPTS WERE GREATEST FOR YARN, TEXTILES AND THEIR MANUFACTURES (150 PERCENT INCREASE ABOVE FIRST HALF LAST YEAR) FOLLOWED BY: (A) COTTON (22 PC INCREASE), (B) MANUFACTURED WOOD PRODUCTS (4,400 PERCENT INCREASE), AND (C) CHEMICAL AND PHARMACEUTICAL PRODUCTS (150 PC INCREASE). DESPITE THE UNCERTAINTY ASSOCIATED WITH THE COUNTERVAILING DUTY INVESTIGATION ON CUT FLOWER EXPORTS TO THE US, FOREIGN EXCHANGE RECEIPTS GREW BY NEARLY 70 PC. THERE WAS A MARKED REDUCTION IN FOREIGN EXCHANGE EARNINGS FROM EMERALDS WHICH RESULTED, WE SUSPECT, FROM THE SHARP REDUCTION IN CATS (TAX REBATES) PAYABLE TO EMERALD EXPORTERS. THE CAT REDUCTION LOWERED THE INCENTIVE TO ILLEGALLY IMPORT EMERALDS FOR RE-EXPORT. THERE WERE ALSO REDUCTIONS IN EARNINGS FROM MEAT AND SUGAR EXPORTS. EARNINGS FROM SERVICES, INCLUDING INTEREST INCOME, AS A WHOLE REMAINED AT ABOUT LAST YEARS LEVEL DESPITE A 20 MILLION INCREASE IN INTEREST INCOME.

3. IMPORTS OF GOODS AND SERVICES: FOREIGN EXCHANGE PAYMENTS IN THE FIRST HALF OF THIS YEAR ROSE BY 36 PC. PAYMENTS FOR COMMODITY IMPORTS WERE UP BY A SUBSTANTIAL 44 PC. FOR THE SAME PERIOD IN 1973 IMPORT PAYMENTS FOR GOODS INCREASED BY ONLY 7 PERCENT. THE SUBSTANTIAL INCREASE IN IMPORT PAYMENTS RESULTS FROM HIGHER IMPORT PRICES AND GOC POLICY TO USE INCREASED IMPORTS TO DAMPEN INFLATIONARY PRESSURE. SERVICE PAYMENTS INCREASED BY 19 PC. INTEREST PAYMENTS ON FOREIGN DEBT PLUS DIVIDENDS ACCOUNT FOR ABOUT HALF THE TOTAL PAYMENTS FOR SERVICES BUT THESE ACCOUNTS REMAINED AT ABOUT THE SAME MAGNITUDES AS LAST YEAR. THE INCREASES IN SERVICE PAYMENTS PRIMARILY WERE IN THE AREAS OF FREIGHT PAYMENTS AND FOREIGN EXCHANGE EXPENDITURES ON FOREIGN TRAVEL. UNCLASSIFIED

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FREIGHT PAYMENTS INCREASED BY 38 PC WHICH IS NOT SURPRISING GIVEN THE LARGE INCREASE IN PAYMENTS FOR GOODS IMPORTS.

4. CURRENT ACCOUNT BALANCE: GIVEN THE LARGE INCREASES IN IMPORT PAYMENTS FOR GOODS AND SERVICES AND THE RELATIVELY SMALL INCREASES IN EXPORT RECEIPTS IT IS NOT SURPRISING TO SEE A SMALL DEFICIT OF 8 MILLION IN THE CURRENT ACCOUNT FOR THE FIRST SEMESTER. LAST YEAR AT THE SAME TIME THERE WAS A SURPLUS OF 9

MILLION WHILE IN 1972 THERE WAS A DEFICIT OF 9 MILLION.

5. THE CAPITAL ACCOUNTS: NET CAPITAL INFLOWS FOR THE FIRST HALF AMOUNTED TO 34 MILLION. WHEN COMPARED TO LAST YEAR FOR THE SAME PERIOD THERE WAS A MARKED CHANGE IN THE SOURCE OF THE FLOWS. IN 1973 ALMOST ALL OF THE NET FLOW CAME FROM OFFICIAL LOANS. HOWEVER IN 1974 ALL THE NET INFLOWS WERE FROM PRIVATE CAPITAL SOURCES. NET OFFICIAL FLOWS WERE NEGATIVE. MOST OF THE NET PRIVATE CAPITAL FLOWS WERE SHORT TERM TRADE FINANCING.

6. RESERVES AND EXCHANGE RATES: DURING THE FIRST HALF OF THIS YEAR GROSS RESERVES INCREASED BY 10 MILLION. THIS HAPPENED BECAUSE IN FEB. 1974 THE GOC GOT PERMISSION FROM THE IMF TO ADJUST THE VALUE OF ITS OFFICIAL GOLD HOLDINGS TO THE PRICE WHICH RESULTED FROM THE SECOND US DOLLAR DEVALUATION IN OCT 1973. DURING THE SAME PERIOD LAST YEAR RESERVES HAD INCREASED BY NEARLY 120 MILLION. THE PESO EXCHANGE RATE DEVALUED AT THE SAME 3 PERCENT RATE EXPERIENCED IN THE FIRST HALF OF 1973.

7. BEGIN COMMENT: WE ANTICIPATE THAT COLOMBIA WILL RUN A MANAGE-ABLE DEFICIT ON THE CURRENT ACCOUNT FOR THE WHOLE YEAR. THIS WOULD BE CONSISTENT WITH COLOMBIA'S ROLE AS A SUBSTANTIAL RECIPIENT OF EXTERNAL ASSISTANCE. WHETHER THE DEFICIT WILL REMAIN MANAGEABLE IN THE FUTURE WILL DEPEND TO A LARGE EXTENT ON: (A) WHAT HAPPENS TO COFFEE EARNINGS, (B) THE CONTINUED RATE OF GROWTH IN COMMODITY IMPORTS, AND (C) CONTINUED ACCESS TO INDUSTRIAL COUNTRY MARKETS FOR COLOMBIA'S NON-COFFEE EXPORTS. END COMMENT.
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